

## Message Text

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PAGE 01 MADRID 02382 032118Z  
ACTION EUR-12

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C O N F I D E N T I A L MADRID 02382

E.O. 11652: GDS  
TAGS: PINT, ECON, SP  
SUBJECT: SPANISH SUBCABINET APPOINTMENTS

REF: MADRID 2314, MADRID 2302

1. SUMMARY: JUST-ANNOUNCED SUBCABINET ECONOMIC APPOINTMENTS PLACE IN TOP POSITIONS THREE CONFIDANTS OF THE RECENTLY RESIGNED VICE PRESIDENT FOR ECONOMY, FUENTES QUINTANA. THIS IS FURTHER EVIDENCE THAT COMPETENT ECONOMISTS WILL STILL BE MAKING IMPORTANT DECISIONS AND THAT THE OVERALL POLICIES OF FUENTES QUINTANA ARE FUNDAMENTALLY INTACT. END SUMMARY.

2. FUENTES QUINTANA'S RANKING TECHNOCRAT, JOSE RAMON ALVAREZ RENDUELES, WAS APPOINTED GOVERNOR OF THE BANK OF SPAIN WHEN THE CABINET MET ON MARCH 2. REPLACING HIM IN THE EQUALLY KEY POSITION OF STATE SECRETARY FOR ECONOMIC COORDINATION AND PROGRAMMING IS ANOTHER FUENTES CONFIDANT, JOSE LUIS LEAL, WHO UNTIL NOW HAS BEEN THE DIRECTOR GENERAL FOR ECONOMIC POLICY. A THIRD FUENTES APPOINTEE WITH TOP RESPONSIBILITY FOR MONETARY POLICY, MANUEL LAGARES, WAS PROMOTED TO DEPUTY PRESIDENTIAL  
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PAGE 02 MADRID 02382 032118Z

ECONOMIC ADVISOR. FUENTES HIMSELF WAS CONFIRMED AS CHIEF PRESIDENTIAL ECONOMIC ADVISOR AND HIS ERSTWHILE PUBLIC ANTAGONIST, PRESIDENTIAL ADVISOR JOSE RAMON LASUEN, QUIETLY HAD HIS RESIGNATION ACCEPTED. (LASUEN WILL BE NAMED AN AMBASSADOR-AT-LARGE.)

3. WHILE WE EXPECT SOME MODERATE POLICY SHIFTS TO ARISE

FROM THE NEW MINISTER-LEVEL LEADERSHIP (SEE REFTELS), THE SUBCABINET APPOINTEES WITH RESPONSIBILITY FOR OVERALL MACROECONOMIC POLICY AND FOR THE CRUCIAL MONETARY POLICY SHOULD HELP FURTHER DISPEL THE IMPRESSION IN SOME QUARTERS THAT ECONOMIC POLICY WILL MAKE A PRO- NOUNCED "TURN TO THE RIGHT" AND AWAY FROM THE POLICIES OF FUENTES QUINTANA.

4. RENDUELES, FOR INSTANCE, IS A PREMIER ECONOMIC TECHNO- CRAT AND HAS BEEN THE LEADING FORCE IN CARRYING OUT THE FUENTES POLICIES FOR AUSTERITY AND STRUCTURAL REFORM. HE HAS NO PARTICULAR IDEOLOGICAL BENT AND HE SHOULD BE A STRONG LEADER OF THE CENTRAL BANK. PROBABLY ECLIPSING HIM IN IMPORTANCE NOW WILL BE HIS REPLACEMENT AS ECONOMIC STATE SECRETARY, PROFESSOR JOSE LUIS LEAL. THE FRENCH- EDUCATED LEAL WAS A MEMBER OF THE OECD INTERNATIONAL STAFF, AND IS CONSIDERED BY HIS COLLEAGUES TO BE VAGUELY LEFT-OF-CENTER. HE HAS NO PARTY AFFILIATION. IF LEAL IS GIVEN SUFFICIENT REIN BY VICE PRESIDENT ABRIL MARTORELL HE WILL JOIN ALSO LEFT-OF-CENTER FINANCE MINISTER FERNANDEZ ORDONEZ AS ONE OF SPAIN'S TWO KEY ECONOMIC LEADERS, WITH FUENTES PLAYING AN ADVISORY ROLE.

5. EMBOFFS LUNCHEON ON MARCH 2 WITH THE ECONOMIC MINISTRY'S DIRECTOR GENERAL OF FINANCE, JOSE JUAN TORIBIO, AND FOUND THAT HE NOT ONLY HAD REACHED SIMILAR CONCLUSIONS  
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PAGE 03 MADRID 02382 032118Z

BUT ALSO FELT THAT THE NEW ECONOMIC LEADERSHIP WOULD, AS THE GOVERNMENT HAS ANNOUNCED, FUNCTION MORE SMOOTHLY THAN BEFORE. TORIBIO SAID THAT THE GOVERNMENT IS SECRETLY PLEASED THAT THE MONEY SUPPLY HAS BEEN GROWING LESS RAPIDLY THAN CALLED FOR IN THE MONCLOA PACT AND WOULD LET THIS CONTINUE FOR A FEW MONTHS. HE EXPRESSED CONFIDENCE IN THE TIMELY IMPLEMENTATION OF THE MANY STRUCTURAL REFORMS ENVISIONED BY FUENTES QUINTANA, SPECIFICALLY INCLUDING LABOR LAW REFORM, A REORGANIZATION OF THE STOCK MARKETS, AND PERMISSION FOR FOREIGN BANKS TO OPEN BRANCHES HERE. ON THE OTHER HAND, HE WAS PESSIMISTIC ABOUT THE LIKELIHOOD THAT THE GOVERNMENT COULD END THE LOSSES AND THE EXCESSIVE INDEPENDENCE OF THE SPANISH SOCIAL SECURITY SYSTEM. TORIBIO ALSO FELT THAT PUBLIC ENTERPRISES WOULD FARE THE SAME AS IN THE RECENT PAST, CONSEQUENTLY GENERATING MAJOR LOSSES. STABLER

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